

Press Release

Arjun Enterprises Private Limited

September 07, 2018



Rating Downgraded

Total Bank Facilities Rated*	Rs. 19.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 19.00 crore bank facilities of Arjun Enterprises Private Limited (AEPL). The outlook is '**Stable**'.

Delhi-based company AEPL was incorporated in 2008 by Mr. Anil Anand, Mr. Ashish Anand, and Ms. Soumya Anand. The company is engaged in the business of import and trading of copper scrap, wire and allied products in the domestic market.

The rating revision is in the view of deterioration in its business risk profile marked by stretched working capital cycle mainly due to high inventory levels leading to full utilization of bank limits. Further the debt to equity ratio stood at 10.56 times as on 31 March 2018 (estimated).

Key Rating Drivers

Strengths

- Experienced Management**

AEPL was incorporated in 2008. It is engaged in the business of import and trading of copper scrap, wire and allied products in the domestic market. The directors Mr. Anil Anand, Mr. Ashish Anand, and Ms. Soumya Anand have nearly four decades of experience in copper industry. The company has diversified product profile of trading of wire rod, billets, ingots, cake, wire copper, bus bar/strips, battery terminals, sheets and circles.

Acuité believes that the company will benefit from its experienced management to maintain healthy relations with its customers and suppliers.

- Revenue Growth with increasing profitability margins**

AEPL has registered a healthy revenue growth with compounded annual growth rate (CAGR) of 95 percent during the last three years ended 31 March, 2018 (Estimated). The company reported revenue of Rs. 164.19 crores in FY2018 (Estimated) as against Rs. 123.86 crores in FY2017 and Rs. 67.33 crores in FY2016. AEPL has operating margins of 2.95 percent in FY2018 (Estimated) as against 2.37 percent in FY2017. The PAT margins

stood at 0.48 percent in FY2018 (Estimated) as against 0.55 percent in FY2017 and 0.61 percent in FY2016.

Weakness

- **Working capital intensive nature of operations**

AEPL has working capital intensive nature of operations marked by Gross Current asset (GCA) days of 107 for FY2018 (Estimated). This is majorly on account of inventory holding of 42 days in FY2018 (Estimated) as against 77 in FY2017 and collection period of 65 days in FY2018 (Estimated) as against 39 days in FY2017.

Acuité believes that AEPL will continue to effectively manage its working capital cycle in order to maintain a stable credit profile.

- **Weak Financial Risk Profile**

AEPL has weak financial risk profile marked by weak tangible net worth of Rs. 3.74 crore as on 31 March 2018 (Estimated) as against Rs. 3.00 crore as on 31 March 2017. The gearing (debt/equity) stood at 10.58 times as on 31 March 2018 (Estimated) as against 11.40 times as on 31 March 2017. The interest coverage ratio (ICR) improved to 1.36 times in FY2018 (Estimated) as against 1.64 times in FY2017. The debt service coverage ratio (DSCR) stood at 1.26 times in FY2018 (Estimated) as against 1.42 times in FY2017. Total outside liabilities to tangible net worth (TOL/TNW) ratio also improved to 11.95 times as on 31 March 2018 (Estimated) as against 14.07 times as on 31 March 2017. The (Net cash accruals to total debt) NCA/TD ratio stood at 0.02 times in FY18 (Estimated)

Acuité believes that the company's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

- **Exposed to fluctuations in raw material prices**

The major raw material of the company is copper scrap. The prices of the same are fluctuating in nature therefore the operating profit margins of the company is susceptible to raw material price fluctuation.

Outlook: Stable

Acuité believes that the outlook will remain stable over the medium term on account of its promoter's extensive experience. The outlook may be revised to 'Positive' in case the company maintains its financial risk profile and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Estimate)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	164.19	123.86	67.33
EBITDA	Rs. Cr.	4.83	2.93	1.20
PAT	Rs. Cr.	0.78	0.68	0.41
EBITDA Margin	(%)	2.94	2.37	1.78
PAT Margin	(%)	0.48	0.55	0.61
ROCE	(%)	11.68	11.00	12.30
Total Debt/Tangible Net Worth	Times	10.56	11.40	6.37

PBDIT/Interest	Times	1.35	1.64	1.63
Total Debt/PBDIT	Times	8.18	11.67	9.67
Gross Current Assets (Days)	Days	107	126	61

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition -<https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/criteria-fin-ratios.htm>
- Manufacturing Entity -<https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12-Mar-2018	Cash Credit	Long Term	12.00	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A4+ (Assigned)

#Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+/Stable (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4 (downgraded)

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About Acuité Ratings & Research:

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